

Les Baugh  
County Member

Irwin Fust  
Special District Alternate



Brent Weaver  
City Member

Dick Fyten  
Public Member

Larry Farr  
City Member

Pam Giacomini  
County Member Alternate

David Kehoe  
County Member

Bob Richardson  
Public Member Alternate

James Yarbrough  
City Member Alternate

Brenda Haynes  
Special District Member

Stephen Morgan  
Special District Member

James M. Underwood  
Interim Executive Officer

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Thursday, August 6, 2015

**Re: Financial Audit Services (Item # 9a)**

Commissioners:

**Background**

In June the Commission authorized the distribution of a Request for Proposals (RFP) for audit services. Although the Commission has annually designated funds for this function in Shasta LAFCO budgets in the intervening years, actual audit services have not been completed for the agency for any of the years following FY 2011-12, and the RFP distribution has been intended to address this audit deferral issue.

**Discussion**

The attached RFP for audit services was distributed to individual CPAs and firms in and around the Redding metropolitan area in order to obtain proposals for services, including for FY 2012-13, 2013-14 and 2014-15. As state in the RFP, in order to have flexibility in the level of financial review to be performed in light of available budget resources and other considerations, responding parties were asked to give proposals for each year, based on compilation, review and full audit approaches.

One proposal was received a copy of which is attached. Ideally, where this option is presented by the receipt of multiple qualified CPA proposals, use of any particular individual or firm would vary in order to get a different audit perspective. However, because the attached proposal is responsive to the RFP, the responding party is qualified to perform the services requested, and it is expected that all applicable audit standards will be met if his services are engaged, it is recommended that the Commission authorize staff to enter into an agreement for services with Donald R. Reynolds C.P.A., consistent with the proposal received and in a form approved by LAFCO General Counsel, and authorize the Chairman to sign that agreement

The Commission's Fiscal Committee has reviewed the audit services proposal and, consistent with existing Shasta LAFCO Policy 2.3.2 providing that audits may occur annually or bi-annually as the Commission may determine, recommends that Mr. Reynold's services be engaged with the resulting work scope to include: (1) Compilation Services for FY 2013-14; and (2) Full Audit Services for FY 2014-15. This would cost a total of \$9,500 and be consistent with the adopted FY 2015-16 Final Budget allowance of \$10,000 for such services.

**Alternatives**

The Commission, in considering how to proceed, could determine to reissue the RFP in hopes of obtaining additional audit services proposals. Additionally, if it determines to contract with Mr. Reynolds for services, the Commission could add compilation services for FY 2013-14 to the proposed work scope, at an added cost of \$2,000, or direct other changes to the proposed years to be considered and/or levels of service to be undertaken and provide related budget direction.

**Conclusion & Recommendations**

Based on the foregoing it is recommended that the Commission proceed as above outlined.

Sincerely,



James M. Underwood,  
General Counsel/Interim Executive Officer

Attachments

# SHASTA LAFCO

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## *Shasta Local Agency Formation Commission*

2516 Goodwater Avenue, Suite A, Redding, CA 96002

Phone: (530) 242-1112 • Fax: (530) 242-1113 • Web: [www.shasta.lafco.ca.gov](http://www.shasta.lafco.ca.gov)

### **REQUEST FOR PROPOSALS FOR AUDIT SERVICES**

#### **I. INTRODUCTION**

##### **General Information**

Shasta Local Agency Formation Commission (LAFCO) is seeking proposals from qualified independent Certified Public Accounting firms to audit LAFCO's financial statements for the fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015. The requested audit work scope is to be conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**To be considered, two (2) copies of a proposal must be received by the Shasta Local Agency Formation Commission, at 2516 Goodwater Avenue, Suite A, Redding, CA 96002, on or before Monday, July 6, 2015, at 5:00 pm.**

During the evaluation process, LAFCO reserves the right, where it may serve the Commission's best interest, to request additional information or clarifications from responders, or to allow corrections of errors or omissions. Submission of a proposal is acceptance by the CPA or audit firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between LAFCO and the firm selected.

**If the Commission opts to go forward with audit contract, it is anticipated the selection of a firm will be completed by August 6, 2015. Following the notification of the selected firm, it is expected a contract will be executed between all parties by no later than September 3, 2015.**

#### **II. SCOPE OF THE WORK TO BE PERFORMED AND STANDARDS TO BE FOLLOWED**

**1. Full Proposed Audit Services Work Scope.** LAFCO desires to have General Purpose Financial Statements (GPFS) to be prepared by an independent auditor and to be fully compliant for GASB #34 for the following fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015 (the "Full Audit Work Scope"). The CPA or firm engaged to perform the Full Audit Work Scope may be asked to provide advice on how LAFCO can best comply with the requirements of GASB #45. A copy of the last audit performed for LAFCO, for the year ending June 30, 2012, is attached.

The LAFCO staff will provide normal cooperation and assistance during the audit including typing of confirmation requests, compiling and refilling of supporting documents and reconciliations of major asset and liability balances. The MD&A and all other financial statements are the responsibility of the audit firm. The audit presentation shall be made by the audit firm to the Commission at a regular or special meeting of the Commission (regular meetings are 1<sup>st</sup> Thursday of every other month).

All working papers and reports are to be retained at the auditor's expense for a minimum of three years. The audit firm will be responsible for making working papers available to LAFCO or any government agencies included in the audit of federal grants.

**2. Alternate Potential Audit Services Work Scope.** Shasta LAFCO, being a public agency of limited resources but one which desires to have timely and adequate audit services performed for the years above stated in the most feasible manner possible, also requests alternate proposed scopes of service from responding CPSs and firms addressing: (a) potential performance of financial compilation or review instead of a full audit for the year(s) ending June 30, 2014, and/or June 30, 2013; (2) the resulting proposed services modifications to the Full Audit Work Scope and changed completion schedule; and (3) the resulting changes in proposed total compensation for services to be performed, by fiscal year affected, compared to the proposal for Full Audit Work Scope services (the "Alternate Audit Services Work Scope"). The proposal, in addressing Alternate Audit Services Work Scope, should briefly address the CPA's or firm's expected ability to meet desired professional audit standards for public agencies if their proposed alternate scope of services were to be pursued by LAFCO upon considering all pertinent factors and considerations.

### **III. TIMETABLE OF AUDIT WORK TO BE PERFORMED**

It is expected that LAFCO's books will be closed and ready for audit, and the contract agreed upon and signed by all parties no later than September 3, 2015. The audit fieldwork should begin no earlier than this date and be complete pursuant to a schedule to be mutually agreed upon by the parties.

### **IV. PROPOSAL REQUIREMENTS**

The following material must be submitted as part of each proposal to be submitted in order for the proposal to be considered complete and to be considered.

1. **Title Page** - The title page shall show the proposal subject, the firm's name and contact person and the individual's or firm's California CPA License Number and Federal Identification Number.
2. **Cover Letter** - The cover letter should briefly state the auditing firm's understanding of the work to be performed, the commitment to perform the work in the required time frame and statements as to why the firm believes it is best qualified to perform the engagement. The cover letter should also make a statement that the firm's offer is a firm, irrevocable offer for 60 days. The cover letter should indicate whether the firm is independent with respect to LAFCO and that the firm is an Equal Opportunity Employer.
3. **Proposer's Qualifications** - The audit firm should set forth the following:
  - A. **Qualifications and Related Experience of the Personnel Who Will Serve LAFCO** - Resumes of the Partner, Manager and Senior Auditor, and the assigned auditor, should be included.
  - B. **Prior Experience Auditing Special Districts and Other Local Governments** - Sufficient information should be provided regarding current local government audit clients and date that the client has been served.
  - C. **Assistance in Implementation of GASB #34 or Other GASB Pronouncements** - Set forth your understanding of this accounting pronouncement and provide information on clients that you have assisted to-date in implementing GASB #34, and if applicable, GASB #45.

**D. References of Local Government Clients** - Provide a listing of public agency clients for which the firm's local office serves, and if it has performed local agency formation commission audit services in the past.

**4. Approach, Scope and Timing of the Audit**

- A. Provide, in sufficient detail, the firm's proposed approach to the proposed LAFCO audit work scope.
- B. Provide sufficient information of the firm's understanding of the objectives and scope of the engagement.

**5. Maximum Fee and Hourly Rates** - The maximum fees and estimated hours for the audit should be provided in the following format for each fiscal year to be audited. The fees should be inclusive of any out-of-pocket expenses incurred by the audit firm:

- A. **Description of Services** - Audit of LAFCO, including GASB #34 implementation and ongoing audit procedures for GASB #34, GASB Preparation and Management letter.
- B. **Not to Exceed Maximum Fee (Including Expenses):** \$ \_\_\_\_\_
- C. **Hourly Rates of the Firm's Employees** should be provided by the firm for services that may be requested outside the scope of the audits as follows:

<u>Classification</u>	<u>Hourly Rate</u>
Partner	\$ _____
Manager	_____
Senior Accountant	_____
Staff Accountant	_____

**6. Other Information Required in Proposal** - The auditing firm shall provide a copy of its most recent Peer Review together with the California Society of CPAs' acceptance of such peer review. The auditing firm shall make a positive statement that it has the required insurance policies in force in amounts of coverage for not less than \$1,000,000 for Professional Liability, Workers Compensation, Comprehensive General Liability and Auto (Owned and Non-Owned). Prior to any commencement of audit services, the selected firm will be required to provide certificates of insurance coverage to LAFCO.

**V. EVALUATION CRITERIA**

Proposals will be evaluated based upon their response to the provisions of this Request for Proposal. The following criteria will be used to evaluate responses to this proposal:

1. The firm's licensing, independence with respect to LAFCO and results of most recent peer review (mandatory requirements);
2. Qualifications and Related Experience of the audit team who will serve LAFCO Partner, Manager and Senior Auditors);
3. Experience of the firm auditing special districts or other public agencies;
4. Prior experience of the engagement team in implementation of GASB #34;

5. Reference of local government clients;
6. Thoroughness of approach to conducting the LAFCO's audit ;
7. Demonstration of the understanding of the objectives and scope of the audit;
8. Commitment to timeliness in the conduct of the audit; and
9. Maximum fees to conduct the audit.

#### **VI. GENERAL INFORMATION ABOUT SHASTA LAFCO**

In 1963, the State Legislature created Local Agency Formation Commissions (LAFCOs) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a LAFCO. LAFCOs are charged with the responsibility of making difficult decisions on proposals for new cities and special districts, spheres of influence, consolidations and annexations. Each LAFCO operates independently from one another in terms of funding, day-to-day operations and staffing.

Shasta LAFCO is a seven-member commission, consisting of two members from the Board of Supervisors, two City Council representatives, two Special District members, and one member from the public at large. Each category has an alternate commissioner who serves in the absence of the regular member. Staff to the Shasta LAFCO includes an Executive Officer and Analyst/Commission Clerk. Shasta LAFCO retains the services of an outside Counsel and consultants on a limited basis.

Funding for Shasta LAFCO operations is funded by the County, the three cities and 34 independent special districts, with each government category contributing a third of the contribution amount. Shasta LAFCO's annual operating budget for the subject fiscal years has been approximately \$190,000. As of May 31, 2015, Shasta LAFCO has had approximately 280 financial transactions in Fiscal Year 2014-15.

Shasta LAFCO and the Special Districts Risk Management Association, through contract, provided all employee benefits through approximately November 2013, and LAFCO has since performed all services using independent contract staff and professional services to perform its functions. Payroll services until approximately November 2013 were provided by an independent payroll service.

LAFCO is presently staffed by a part-time contract Office Manager. James M. Underwood, of the Underwood & Wetzel Law Offices, P.C., serves as LAFCO's General Counsel, and is serving as the Interim Executive Officer pending an ongoing request for independent consultant proposals to provide executive officer services for LAFCO.

#### **VII. OTHER INFORMATION**

Contact James M. Underwood, Shasta LAFCO General Counsel/Interim Executive Officer, at (530) 242-1112 with any questions relating to Shasta LAFCO or this RFP.

Attachments: (1) FY 2011-12 Financial Audit  
(2) Final FY 2015-16 Budget

**RESPONSE TO THE REQUEST FOR  
PROPOSAL TO PROVIDE INDEPENDENT  
PROFESSIONAL AUDITING SERVICES**

**FOR THE**

**SHASTA LAFCO  
FISCAL YEARS ENDING  
JUNE 30, 2013, 2014 and 2015**

Submitted By

**DONALD R. REYNOLDS  
CERTIFIED PUBLIC ACCOUNTANT**

1438 Oregon Street  
Redding, California 96001  
Phone Number: (530) 246-2834

Contact Person: Donald R. Reynolds C.P.A.

Date Submitted

July 3, 2015

TABLE OF CONTENTS

TECHNICAL PROPOSAL

SECTION 1

SEALED DOLLAR COST BID

SECTION 2

**TECHNICAL PROPOSAL TO PROVIDE INDEPENDENT  
AUDITING SERVICES  
(Master Copy)  
FOR THE**

**SHASTA LAFCO  
FISCAL YEARS ENDING  
JUNE 30, 2013, 2014 and 2015**

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Date Submitted

July 3, 2015

**TECHNICAL PROPOSAL  
TABLE OF CONTENTS**

<u>Part</u>	<u>Page Number</u>
LETTER OF TRANSMITTAL .....	I-1
INDEPENDENCE OF PROPOSER .....	II-1
PROFILE OF PROPOSER .....	III-1
PROPOSER'S APPROACH TO THE AUDIT .....	IV-1

**LETTER OF TRANSMITTAL**

# *Donald R. Reynolds*

Certified Public Accountant

July 3, 2015

The Honorable Commissioners  
Shasta LAFCO  
2516 Goodwater Ave. Suite A  
Redding, CA 96001

Re: Proposal For Furnishing Audit Services

Dear Sirs:

Thank you for the opportunity to submit this proposal to furnish auditing services to the Shasta LAFCO, (the Commission) for the years ending June 30, 2013, 2014 and 2015.

I understand the scope of the engagement to include an audit of the Basic Financial Statements of the Shasta LAFCO, for the years ending June 30, 2013, 2014 and 2015 in accordance with U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. In addition I will assist the Commission in preparing the annual financial statements in accordance with the provisions of GASB 34, 45 and 68.

My audits of the annual general purpose financial statements and component units, if any, will be in accordance with generally accepted auditing standards. The primary purpose of my audits will be to express my opinion that the general purpose financial statements and component units are presented fairly in conformity with generally accepted accounting principles applied on a consistent basis.

In addition to the above services, I will also submit, to the appropriate parties, each year a management letter containing my recommendations, which if implemented would, in my opinion, increase efficiency, improve internal controls, improve management, or result in cost savings to the Commission.

## **Audit Objectives**

The objective of my audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. My audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States, and will include tests of the accounting records of the Association and other procedures I consider necessary to enable me to express such an opinion. If my opinion on the financial statements is other than unqualified, I will fully discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed an opinion, I may decline to express an opinion or to issue a report as a result of this engagement.

I will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements,

noncompliance with which could have a material effect on the financial statements as required by Governmental Auditing Standards. This report will include a statement that the report is intended solely for the information and use of the board of directors, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, I will prepare a draft of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any non-audit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position, activities, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits

or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

### **Audit Procedures - General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. I will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because I will not perform a detailed examination of all transactions, there is a risk that a material misstatement may exist and not be detected by me. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, I will inform you of any material errors that come to my attention, and I will inform you of any fraudulent financial reporting or misappropriation of assets that comes to my attention. I will also inform you of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. My responsibility as auditor is limited to the period covered by my audit and does not extend to matters that might arise during any later periods for which I am not engaged as auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will also require certain written representations from you about the financial statements and related matters.

### **Audit Procedures - Internal Control**

My audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements

The Honorable Commissioners  
Shasta LAFCO

resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. My tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Association's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Audit Administration, Fee, and Other**

I understand that you will prepare all cash or other confirmations I request and will locate any invoices selected by me for testing.

The audit documentation for this engagement is the property of Donald R. Reynolds, CPA and constitutes confidential information. However, pursuant to authority given by law or regulation, I may be requested to make certain audit documentation available to federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audits, to resolve audit findings, or to carry out oversight responsibilities. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Donald R. Reynolds, CPA personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

I expect to begin my audit as soon as the books are ready for audit, and assuming that the books are adjusted and complete by October 1, 2015, I agree to issue a draft report by November 15, 2015 and final reports no later than December 1, 2015. I understand that the reports for year ended June 30, 2015 may be an annual financial report and that the Commission desires that the reports for subsequent years will be Comprehensive Annual financial Reports.

My fees for these services will be at my standard government hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) Those standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audits. My invoices for these fees will be rendered each month as work progresses and

The Honorable commissioners  
Shasta LAFCO

are payable on presentation. In accordance with my firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If I elect to terminate my services for nonpayment, my engagement will be deemed to have been completed upon written notification of termination, even if I have not completed my report. You will be obligated to compensate me for all time expended and to reimburse me for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs.

Staffing the engagement will be done with a combination of full time and part time professionals and para-professionals. All staff assigned to this engagement will meet the GAO standards for continuing education. I also commit to maintaining adequate levels of staffing to insure that the engagement is completed within the stipulated time line unless otherwise agreed to in advance. I, Donald R. Reynolds, owner, will serve as principal auditor during the first year of the engagement. I am committed to providing quality service with a minimum of disruption to Commission staff and I will be personally supervising each step of the engagement in order to see that this happens.

I feel that I can most effectively serve as independent auditor for the Commission because of my prior experience with county and city auditing, and specifically with the Shasta LAFCO. This, coupled with a lower overhead and progressive attitude toward the use of computer techniques and other innovations to expedite field work.

*Government Auditing Standards* require that I provide you with a copy of my most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. My 2011 peer review report accompanies this letter.

### **Alternative Scope of Work**

Paragraph 2, Section II of the Request for Proposal for the period July 1, 2012 to June 30, 2015, requests information regarding an alternative scope of work. The alternative scope request specifies both "Review" and "Compilation" services for the periods June 30, 2013 and 2014. The following addresses the level of assurance represented by each level of service under SSARS 19 and 21. Statement of Standards for Accounting and Review Services, Number 21, as issued by the American Institute of Certified Public Accountants, supercedes SSARS 19 and is effective for all periods ending after December 15, 2015. Early application is encouraged.

A review is the first level of attestation below an audit. It consists of applying analytical procedures to selected accounts and inquiry of Organization staff to determine if there are unexpected differences in the Organizations books of account. The review report under SSARS 21 reads as follows:

I have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is

substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

*Accountant's Responsibility*

My responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

*Accountant's Conclusion*

Based on my reviews, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A compilation is limited to preparing financial statements that are the representation of Management. As the accountant, no procedures are performed other than basic ministerial functions to insure that the statements are in balance, and no level of assurance what-so-ever is provided. The report is as follows:

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Either of these services provide a substantially lower lever of assurance than an audit, or, in the case of a Compilation, no assurance at all. I would suggest that the organization consider a review for the

The Honorable commissioners  
Shasta LAFCO

2012-13 and 2013-14 fiscal years and a certified audit for 2014-2015, while encompassing all years transactions in the internal control testing. The organization should also understand that in any year where the opening balances were not subject to audit, 2012-13 and 2013-14 in the above scenario, the audit report for the following year's financial statement will have an opinion that is qualified due to lack of audited opening balances (a scope limitation) unless the Organizations desires to have additional procedures applied to them.

I would be pleased to meet with the Board to discuss the accompanying proposal. Again, I express my appreciation for the invitation to submit this proposal. If you desire further information or have questions, please call.

This proposal is binding for a period of 90 days, and the person signing this letter may legally bind the proposer.



**DONALD R. REYNOLDS**  
Certified Public Accountant

**INDEPENDENCE  
AND  
OTHER SPECIFIC RESPONSES**

## **INDEPENDENCE**

The Firm of **Donald R. Reynolds, C.P.A.**, including the proprietor, and professional staff, have no business, investment or family relationships with the Commission (elected or appointed), appointed employees or department heads.

With respect to the Commission, **Donald R. Reynolds, C.P.A.** meets the independence standards of Standards for Audit of Governmental Organization, Programs, Activities and Functions (1999 revision) by the Comptroller General of the United States which states:

"In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance."

In addition, I am also independent with respect to the Commission under the AICPA Code of Professional Ethics. Throughout the specified term of the engagement I will continue my independence with respect to the Commission.

## **TAX ID INFORMATION**

Donald R. Reynolds, CPA SSN - 551-92-1301

## **CERTIFICATION OF ALL APPLICABLE INSURANCES**

Donald R. Reynolds, CPA carries all necessary commercial insurances including but not limited to errors and omissions insurance and personal liability insurance. Limits on these policies and carriers are available upon request.

## **CERTIFICATION OF LICENSURE AND ELIGIBILITY**

Donald R. Reynolds, CPA is a duly licensed CPA in the State of California, approved to perform audits of governmental entities.

## **STABILITY**

As can be seen by reference to my references and resume, the firm of Donald R. Reynolds, CPA has been in existence since 1992 and the principal has been practicing in the State of California since 1978. The principal will be primarily responsible for the oversight of the engagement. My average tenure with audit clients is six years.

## **AUDITING THROUGH AND AROUND COMPUTERIZED ACCOUNTING SYSTEMS**

I utilize a battery of various audit techniques and methods depending on the individual conditions that I encounter in the performance of any audit. On numerous occasions I have audited entities that were in a state of flux between manual and electronic accounting systems and hybrid variations thereof. While each individual client offers it's own unique set of challenges, I believe that my nearly forty years of experience qualifies me to adapt to any system and audit through or around the system effectively.

## **AUDIT CONCLUSION PROCEDURES**

At the conclusion of the audit, a complete adjusted trial balance as well as copies of all accepted journal entries will be provided to management. In order to insure efficiency a primary point of contact will be established at the beginning of the engagement for the purposes of disseminating document requests and audit results. It is through that person or persons that the results of the engagement will be disseminated.

## **PROFILE OF PROPOSER**

## A PROFILE OF THE FIRM

**Donald R. Reynolds, C.P.A.** is a local Certified Public Accounting firm licensed by the State of California, with offices located in Redding. To meet the needs of my clients, I offer a complete range of auditing, accounting, tax, and management advisory services. As a nonprofit and governmental auditor, I have accumulated nearly 30 years of professional experience in the area of governmental and nonprofit auditing, most recently adding foster family agencies and group homes over the last few years.

Throughout my tenure as a government and nonprofit auditor my objective has always been to develop a good working relationship with my audit clients, while maintaining the necessary level of independence needed to insure a valid auditor, client relationship. This allows the audit to be completed timely and with as little disruption to the client as possible.

My clientele is highly diversified and includes representation in many areas of business and government. I will be committing my resources to a program of the highest quality client service.

As a member of the American Institute of Certified Public Accountants (AICPA) Division for CPA Firms - Private Companies Practice Section (PCPS), I recently underwent my third tri-annual Peer Review and have received an unqualified opinion. My Peer Review report is enclosed for your review. I continually participate in formal professional development programs, and have developed a comprehensive library of accounting, auditing, tax and management services research material. I have access to all current texts and publications on governmental and nonprofit accounting and auditing requirements, including numerous publications of the Governmental Finance Officers Association (GFOA), via the World Wide Web, and use it to maintain the most up to date information available.

I have significant experience in risk assessment and program auditing. After nearly 40 years of practice, I have been involved in several forensic examinations and my audit procedures were instrumental in discovering and disclosing a nearly \$500,000 federal fraud and nearly \$50,000 in embezzled funds. The findings of which resulted in nearly 2000 source documents which were turned over to State, Federal and Local authorities for civil and criminal investigation.

I have previously been engaged as independent auditor by the following municipalities and non-profit entities:

<u>Entity</u>	<u>Name and Title</u>	<u>Telephone No.</u>
<b>City of Biggs, Biggs, California</b>	Mark Sorenson, City Manager/Finance Officer	(530) 868-0101
Scope:	Single Audit, A-133	
Total Hours:	100+	
<b>City of Corning, Corning California</b>	John Brewer, City Manager	(530) 824-7020
Scope:	Single Audit, A-133	
Total Hours:	100+	
<b>Grindstone Indiana Rancheria</b>	Rudy Inong, Fiscal Officer	(530) 519-7630
Scope:	Single Audit, A-133	
Total Hours:	100+	
<b>Tehama Mosquito Vector Control District</b>	Andrew Cox, District Manager	(530) 527-1676
<b>Crescent City Harbor District</b>	Charles Helms, District Manager/Harbor Master	(707) 464-6174
<b>Del Norte Economic Development Corporation</b>	Jessica Mercado, Business Manager	(707) 464-2169
<b>Trinity County Waterworks District No. 1</b>	Craig Hair, District Manager	(530) 628-5449

I have also been engaged as independent auditor for numerous other non-profit and governmental agencies located throughout northern California, including municipalities, special districts and other agencies. I have considerable experience in the area of compliance auditing in connection with "single audits" under the Single Audit Act and OMB Circulars A-128 and A-133, Special Grant audits of Federal Revenue Sharing programs, U.S. Department of Housing and Urban Development Community Development Block Grant (CDBG) programs, U.S. Department of Commerce, and Local Public Works programs (LPW). I would be happy to provide an expanded list of prior clients upon request.

The majority of my audit clients, both in government and the private sector have in-house computers. In addition, generally accepted auditing standards require that in each audit I include a review of a client's system of internal accounting control encompassing all significant and relevant manual, mechanical, and EDP activities and the interrelationship between EDP and user departments. Therefore, I have developed a significant amount of expertise in the areas of reviewing EDP systems and auditing around and through such systems.

In the past I have served as an instructor for the California Society of Certified Public Accountants, Education Foundation, in the areas of Single Audit, Government and Nonprofit Audit and Accounting, as well as serving as the Foundation's primary instructor for the GAO Yellow Book. In addition, I was involved in assisting the Society of California Accountants in the formation of a CPE curriculum in the area of governmental and nonprofit auditing and accounting as well as developing a training course for government and nonprofit auditors.

In assessing the potential auditors qualifications, the client should attempt to achieve the following goals:

- (1) Selection of an auditor who has prior experience with governmental auditing and, specifically, with governmental entities.
- (2) Selection of an auditor who can bring a broad spectrum of expertise to bear in identifying potential problems and suggestions.
- (3) Selection of an auditor with the experience level and background which minimizes unnecessary questions and time demands on the Commission's staff, as well as complete the engagement during normal office hours or other time schedules agreed to by both parties.

My resume is presented on the following pages.

## DONALD R. REYNOLDS, C.P.A.

### EDUCATION

Master of Science program (Accounting) - California State University, Sacramento, California (1979)

Bachelor of Arts (Economics and Ag-Economics) - University of California, Davis (1975)

### PROFESSIONAL MEMBERSHIPS

American Institute of Certified Public Accountants

California Society of Certified Public Accountants

AICPA's Private Companies Practice Section

GFOA Special Review Committee

### PROFESSIONAL EXPERIENCE

My previous experience in governmental auditing includes the following:

- 1) City of Crescent City (2007 - 2013) (Single Audit),
- 2) City of Biggs (2011 - Present)(Single Audit),
- 3) City of Corning (2004 - Present)(Single Audit),
- 4) First 5 Tehama (2007 - Present),
- 5) Trinity County Water Works District #1 (2006 - Present),
- 6) Tehama Mosquito and Vector Control District (2005 - Present),
- 7) Del Norte EDC (1996 - Present) (Single Audit),
- 8) Tri Agency Council (2001 - Present)(Single Audit),
- 9) Shasta County Child Abuse Prevention Coordinating Council (2004 - Present) (Single Audit),
- 10) Del Norte Senior Community Center (2004 - Present),
- 11) Small Cities Organized Risk Effort (1989 - 1993)(1999 - 2006),
- 12) Crescent City Harbor District (1996 - Present),
- 13) Various special district, school districts, and other cities and agencies.

During my tenure as senior audit manager of a large local CPA firm, I also participated in a number of non-governmental audit engagements including manufacturing and processing plants, a retail market chain and title and escrow companies.

I also have eight years experience auditing commercial health and benefit programs in association with the preparation of the annual report to the Internal Revenue Service, Form 5500 which requires that any entity with more than 100 employees, providing health and welfare programs have an audit in accordance with generally accepted auditing standards. Prior to the accounting industry, I was engaged in private industry in a managerial capacity with an emphasis on the accounting function.

I am a past instructor for the California Society of Certified Public Accountants in the areas of Governmental and Nonprofit Auditing and Accounting and was the primary instructor for the course on the GAO Yellow Book. In addition, I have worked with the Society of California Accountants to help develop a CPE curriculum.

I am a previous member of the Government Accounting Standards Board (GASB) advisory group which drafted the "Question and Answer" release on GASB 10, "Accounting for Risk Financing ...", a member of the GASB Task Force for the development of the Omnibus Statement on GASB 10 and the Interpretation on GASB 10, as well as being used as a referral source by GASB, on GASB-10.

I am currently an ex-quality reviewer for the GFOA in the Certificate of Achievement for Excellence in Financial Reporting Program.

**PROPOSER'S APPROACH TO THE EXAMINATION**

## PROPOSER'S APPROACH TO THE EXAMINATION

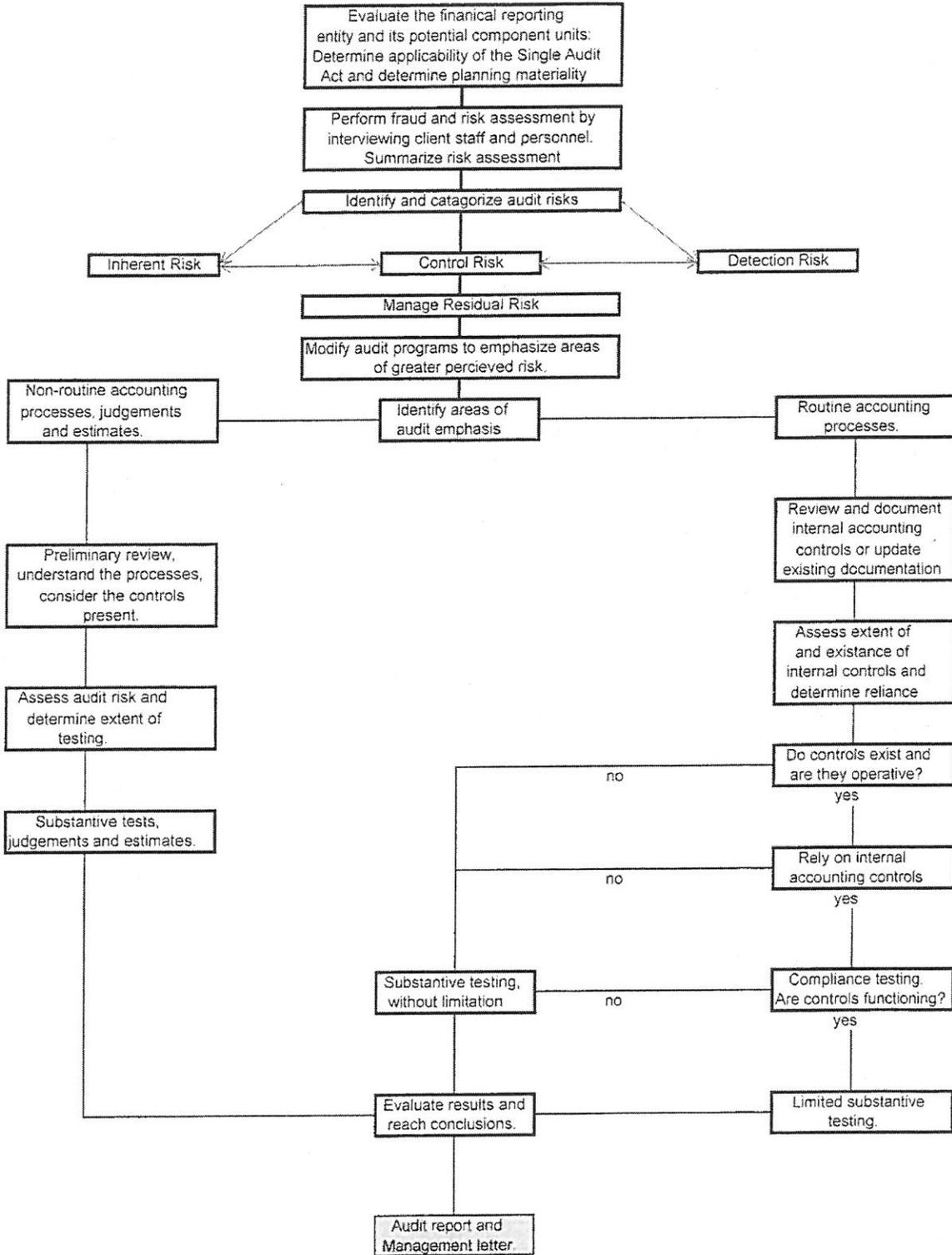
In connection with the annual audits of the Commission's general purpose financial statements, my audit approach is set forth below:

I, Donald R. Reynolds will have the ultimate responsibility for the timely completion of the engagement. My duties will include overall planning of the audits, supervising and assisting in the completion of the field work and required reports, supervision of other professional staff, involved in the audit, and the conclusion of the audits. I will perform the final review of the work papers, financial statements, and management letters. I will also be available for consultation with Commission officials and will work with the Commission in resolving any questions or differences of opinions which may arise during the course of the engagement. I will also present the general purpose financial statements and reports to the Board of Supervisors, and attend any meetings with the Board as required.

I recognize that each entity I audit is different and requires a carefully determined combination of audit procedures and reliance on existing internal accounting and administrative controls. After completing my evaluation of the Commission's operating procedures and controls, I will prepare an overall audit plan that will result in my performing an efficient and cost-effective audit.

My audits will comply with the requirements of the Comptroller General of the United States, as detailed in the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", as revised, as well as OMB Circular A-133. Additionally, we will see that the statements are prepared in accordance with GASB 68. In addition, I will continually update my audit plan to include areas of audit emphasis expressed by the Commission. The total hours estimated for the completion of the audit engagement is based upon my assessment of the Commission's operating systems and my commitment to a thorough and complete audit. As can be seen in the diagram on the following page, my audit approach is based upon my evaluation of the Commission's system of internal accounting controls and the planning process:

# AUDIT APPROACH



My audit approach lends special emphasis to areas of higher perceived audit risk. Such areas would include the following:

- . Evaluation of internal accounting controls and fraud and risk assessment
- . Cash
- . Receivables
- . Capital Assets
- . Grant administration
- . Compliance with laws and regulations
- . Compliance with specific grant requirements
- . Compliance with newly issued GASB pronouncements.

My underlying audit philosophy is to tailor a selection of audit procedures to best fit the Commission's organization and systems of internal accounting control. My ability to incorporate this philosophy in my service plan is demonstrated by performing an efficient, high quality audit.

Based upon my understanding of the Commission's operations, I have prepared a preliminary work plan for the audit as follows:

#### **INITIAL PROCEDURES (July - August 2015)**

- . Entrance interview.
- . Completion of detailed work plan and review with Commission personnel.
- . Risk analysis and fraud interviews in accordance with professional standards.
- . Consultations with the appropriate personnel regarding accounting systems, timing of procedures and potential accounting issues.
- . Review and evaluation of internal accounting controls to include documentation of systems and review of electronic data processing application.
- . Completion of preliminary compliance testing.
- . Communication with predecessor auditor.

#### **INITIAL FIELDWORK (July - November 2015)**

- . Based upon the results of my study and evaluation of internal accounting controls,

parameters will be established for compliance testing.

- . Identification of significant compliance requirements and determination of the most practical audit approach and review of GASB 34 conversion procedures needed.
- . Preliminary analytical review in accordance with SAS 58.
- . Accumulation of historical information such as leases, contracts and minutes.
- . Based upon the results of my preliminary evaluation of internal accounting controls and the results of my compliance testing, the scope of my year end substantive audit procedures will be established.
- . Identification of additional schedules to be prepared by accounting personnel.
- . Preparation of the Report of Financial Transactions prior to the October 18<sup>th</sup> deadline

#### **YEAR END PROCEDURES (November - December 2015)**

- . Confirmation of applicable account balances.
- . Completion of substantive account balance testing.
- . Completion of Single Audit testing.
- . **Exit Conference on or before December 15, 2015**
  - . Review draft of Commission's annual financial statements/CAFR, including any significant findings.
  - . Review preliminary draft of Report of Financial Transactions and Annual Streets Report (if requested).
  - . Review Management Correspondence.
- . **Issue final reports on or before December 31, 2015**

#### **SAMPLING METHODS AND ANALYTICAL PROCEDURES**

Authoritative literature defines substantive testing as being comprised of both tests of details and analytical procedures. Audit sampling is a primary method to perform tests of details. Unless it is feasible for the auditor to examine an entire accounting population, sampling is necessary. Auditors frequently use sampling to perform their tests of controls as well as substantive testing.

I believe that sampling for both tests of controls and internal control testing is appropriate. Testing will be done using a combination of random samples, generated using a random number generator, for those accounts and/or procedures with significant populations, and, in those areas where prior experience has indicated the sufficiency of the internal controls, walk-throughs may be appropriate.

A walk-through, is a selection of a limited sample from the population and attribute testing is performed at each step of the transaction in order to ascertain compliance with the existing internal control system. Any deviation from the control system warrants the expansion of the testing to full statistical samples.

Federal guidelines require, in many cases, that statistical samples of sufficient sample size be drawn to test compliance with federal regulations under OMB circular A1 33. In such cases samples of appropriate size will be designed and tested in accordance with the appropriate compliance supplement for the year under audit.

Analytical testing, including trend analysis using balances from prior years will be performed at the initiation of the audit, prior to any proposed adjustments, and at the end of the audit, following any adjustments in order to attempt to identify any items of significant change. In addition a comparison to current and prior budget information will be performed to attempt to identify unusual variations.

All samples will be random in nature and of sufficient size to provide statistical validity of the testing results acceptable variations will be identified prior to testing, and variations in excess of acceptable limits will warrant expansion of the test work. In some cases variations may want discussions with management and/or funding agencies regarding the nature the variations to determine how best to proceed.

I utilize a detailed, comprehensive time-billing system which allows me to track costs in several categories. This will allow me to track time both under general audit categories as well as by grants etc., if requested.

All audit work papers and related documents will be held for a minimum of three years and made available to the Commission upon request.

**DOLLAR COST BID TO PROVIDE INDEPENDENT  
AUDITING SERVICES  
(Master Copy)  
FOR THE**

**SHASTA LAFCO  
FISCAL YEARS ENDING  
JUNE 30, 2013, 2014 and 2015**

Submitted By

**DONALD R. REYNOLDS  
CERTIFIED PUBLIC ACCOUNTANT**

1438 Oregon Street  
Redding, California 96001  
Phone Number: (530) 246-2834

Contact Person: Donald R. Reynolds C.P.A.

Date Submitted

July 3, 2015

## COMPENSATION

# *Donald R. Reynolds*

Certified Public Accountant

July 3, 2015

The Honorable Commissioners  
Shasta LAFCO  
2516 Goodwater Ave. Suite A  
Redding, CA 96001

Re: Proposal For Furnishing Audit Services

Dear Sirs:

Thank you for the opportunity to submit this proposal to furnish auditing services to the Shasta LAFCO, (the Commission) for the years ending June 30, 2013, 2014 and 2015.

The all-inclusive maximum fees for the proposed audits are set forth on Table I on the following page.

Also set forth on Table I are my standard hourly rates effective for the fiscal years ending June 30, 2013, 2014 and 2015.

My actual fees for all of the auditing services I provide will be based on my standard hourly rates set forth in Table I, and in the event my actual costs are less than the specified maximum fees, I will bill the Commission for my actual fees.

The fees set forth on Table I are an integral part of this proposal.

I would be pleased to meet with the Board to discuss the accompanying proposal. Again, I express my appreciation for the invitation to submit this proposal. If you desire further information or have questions, please call.

This proposal is binding for a period of 90 days, and the person signing this letter may legally bind the proposer.



**DONALD R. REYNOLDS**  
Certified Public Accountant

**TABLE I**  
**AUDIT FEE SUMMARY FISCAL YEAR ENDING June 30,**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
All inclusive maximum fee for the audit of the general purpose financial statements, including applicable Yellow Book Audit procedures and preparation of all required reports .....	\$ <u>6.500</u>	\$ <u>7.000</u>	\$ <u>7.500</u>
Our of Pocket Expenses .....	\$ <u>Included</u>	\$ <u>Included</u>	\$ <u>Included</u>
Review Services .....	\$ <u>3.500</u>	\$ <u>3.500</u>	\$ <u>3.500</u>
Compilation Services .....	\$ <u>2.000</u>	\$ <u>2.000</u>	\$ <u>2.000</u>

**HOURLY RATES FOR EACH LEVEL OF WORK PERFORMED:**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Proprietor, Audit Manager .....	\$ <u>105.00</u>	\$ <u>110.00</u>	\$ <u>115.00</u>
Supervisors .....	\$ <u>105.00</u>	\$ <u>110.00</u>	\$ <u>115.00</u>
Senior Staff Accountant .....	\$ <u>85.00</u>	\$ <u>87.50</u>	\$ <u>90.00</u>
Junior Staff Accountant .....	\$ <u>55.00</u>	\$ <u>57.50</u>	\$ <u>60.00</u>
Clerical .....	\$ <u>40.00</u>	\$ <u>42.00</u>	\$ <u>45.00</u>

Note: Time will be accumulated and grouped according to appropriate levels of experience required to perform various tasks.



David E. Vaughn CPA

(209) 957-8806, fax (209) 957-9589

4540 Gnekow Drive, Stockton, Ca. 95212-1307

### System Review Report

December 28, 2012

Donald R. Reynolds,  
Certified Public Accountant,  
and the Peer Review Committee of the California Society of CPAs

I have reviewed the system of quality control for the accounting and auditing practice of Donald R. Reynolds, CPA (the firm) in effect for the year ended December 31, 2011. My peer review was conducted in accordance with Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my review. The nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included an engagement performed under *Government Auditing Standards*.

In my opinion, the system of quality control for the accounting and auditing practice of Donald R. Reynolds, CPA in effect for the year ended December 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Donald R. Reynolds, CPA has received a peer review rating of *pass*.

David E. Vaughn, CPA